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No. 01-___

IN THE

Supreme Court of the United States

C.R. BARD, INC.,
Petitioner,

v.

W.L. GORE & ASSOCIATES, INC.,
Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

LAWRENCE H. MARTIN
FOLEY, HOAG & ELIOT LLP
1747 Pennsylvania Avenue, NW
Washington, DC 20006
(202) 223-1200

PETER B. ELLIS *
FOLEY, HOAG & ELIOT LLP
One Post Office Square
Boston, MA 02109
(617) 832-1000

Counsel for Petitioner

*Counsel of Record

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

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QUESTIONS PRESENTED

What are the contours of a federal court's "holding"? Is the "holding" of a case narrowly confined to the relief expressly granted by the trial court, as the Third Circuit has ruled? Or, as the District of Columbia Circuit has ruled, does the "holding" of a case include issues of fact and law which are necessarily and indisputably subsumed within the court's express findings and rulings, such that the doctrine of issue preclusion would apply in any future proceeding?

CORPORATE DISCLOSURE STATEMENT

In accordance with Supreme Court Rule 29.6, petitioner C.R. Bard, Inc., a publicly traded company, states that it has no parent corporations nor is there any publicly held company that owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

C.R. Bard, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Third Circuit in this case.

OPINIONS AND ORDERS BELOW

The opinion of the Court of Appeals (App., *infra*, 1a-4a) is not reported. The opinion of the District Court (App., *infra*, 5a-26a) is also not reported.

JURISDICTION

This petition seeks review of a decision of the United States Court of Appeals for the Third Circuit entered December 6, 2001. Jurisdiction is invoked pursuant to 28 U.S.C. § 1254(1). This petition is timely pursuant to 28 U.S.C. § 2101(c) and Supreme Court Rule 13.

STATEMENT OF THE CASE

This case presents a fundamental issue of federal procedural law as to which two Courts of Appeal have reached radically different results: the scope and content of a federal court's "holding."

A. Factual Background

Petitioner C.R. Bard, Inc. ("Bard") and Respondent W.L. Gore & Associates, Inc. ("Gore") each manufacture and sell healthcare products, including products for the treatment of cardiovascular problems. Gore owned U.S. Patent No. 4,187,390 (the " '390 Patent," now expired) pertaining to certain materials formed of expanded polytetrafluroethylene ("ePTFE"). In 1984, Gore sued Bard (the "Initial Action") alleging that Bard's manufacture and sale of ePTFE vascular grafts infringed claims 9, 12, 16, 35 and 36 of the '390 Patent.[1]

Very shortly after the Initial Action was filed, Bard and Gore entered a settlement agreement (the "1984 Settlement Agreement"). Pursuant to that agreement, Bard agreed to the entry of final judgment and a permanent injunction, paid Gore $600,000 and agreed to destroy its remaining stocks of ePTFE grafts. Bard agreed also to one additional term, which later gave rise to the present suit.

At the time of the 1984 Settlement Agreement, Bard held license rights with respect to any patent which might issue from a then-pending patent application (the "Goldfarb Application"). Under Paragraph 3 of the 1984 Settlement

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[1] Patent "claims" set out the subject matter of the invention. *See* 35 U.S.C. § 112 (first sentence, second paragraph). They serve two functions: (1) they define the invention for the purposes of evaluating patentability, and (2) they define the scope of the patent for the purposes of determining infringement. Donald S. Chisum, 3 CHISUM ON PATENTS § 8.03, at 8-14 (2002). The '390 Patent contains a total of 77 claims, five of which were at issue in the Initial Action.

Agreement, Bard granted Gore an option to acquire a non-exclusive sub-license (the "Goldfarb Option") if a patent ultimately issued on the Goldfarb Application.

Bard, however, retained the right to revoke the Goldfarb Option if the five patent claims that Gore had asserted against Bard in the Initial Action were later "held" invalid. Specifically, paragraph 6 of the 1984 Settlement Agreement ("Paragraph 6") provided:

> In the event there is a final judgment of a United States court from which no appeal has been or can be taken and which ***holds invalid*** each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35 and 36 of United States Patent No. 4,187,390, then Bard may [withdraw the Goldfarb Option].

(Emphasis added.)

On April 3, 1984, eight days after the effective date of the 1984 Settlement Agreement, Gore sued another company, International Medical Prosthetics Research Associates, Inc. ("IMPRA"), in the United States District Court for the District of Arizona (the "Arizona Action"). Gore alleged that IMPRA was infringing the '390 Patent by manufacturing and selling the same kind of ePTFE grafts as those formerly sold by Bard.

With the ink still wet on the 1984 Settlement Agreement, Gore elected to assert only claims 9, 12, 16 and 35 of the '390 Patent against IMPRA (*i.e.*, four of the five claims enumerated in Paragraph 6). It did not specifically assert claim 36.[2] After a two-and-a-half-month trial, the Arizona

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[2] This omission was conspicuous for two reasons. First, if IMPRA infringed claims 9, 12, 16 and 35, it also necessarily infringed claim 36. All of the elements of claim 36 are present in claims 9 and 35, and claim 36 introduces no novel elements. Moreover, Gore had asserted claim 36 in earlier litigation both against Bard and against a company that made products significantly different from those made by Bard and IMPRA.

district court issued an Amended Memorandum Opinion and Order, and an Amended Judgment (collectively, the "Arizona Final Judgment") on July 10, 1990 invalidating the '390 Patent. *See W.L. Gore & Assocs., Inc. v. IMPRA*, 16 U.S.P.Q.2d 1241 (D. Ariz. 1990). While the separate judgment document required by Federal Rule of Civil Procedure 58 refers on its face only to claims 9, 12, 16 and 35 of the '390 Patent (the claims Gore strategically chose to assert against IMPRA), the express holdings of the Arizona court's Memorandum Opinion swept far more broadly. Those holdings clearly signified the invalidity not only of claims 9, 12, 16 and 35, but also claim 36 and indeed every other claim of the '390 Patent. *At no point in the long history of this litigation has Gore seriously disputed this fact.* Gore has argued only that because the Arizona Final Judgment does not expressly refer to claim 36 by number, it did not "hold invalid" that claim, even though principles of issue preclusion/collateral estoppel would have prevented Gore from ever suing on the claim.

When Bard later learned of the Arizona Final Judgment,[3] it concluded that the Arizona Final Judgment had "held invalid"

Yet, it elected not to assert claim 36 against IMPRA, which made products functionally identical to Bard's.

[3] Gore appealed the Arizona Final Judgment to the United States Court of Appeals for the Federal Circuit. While the appeal was pending (and after oral argument), Gore and IMPRA settled the matter and agreed, at Gore's request, to a stipulated vacatur of the Arizona Final Judgment. Gore has argued that the vacatur precludes the Arizona Final Judgment from being considered a "final judgment" within the meaning of Paragraph 6. Bard argued that the vacatur had no effect on the condition subsequent of Paragraph 6. Because neither of the courts below addressed this issue, but based their rulings solely on the "holds invalid" language of Paragraph 6, the vacatur issue is not one that need be reached by this Court. The only issue presented by this Petition is the difference of opinion between the Third Circuit and the D.C. Circuit on the contours of a federal court's "holding."

claims 9, 12, 16, 35 *and* 36. Bard therefore informed Gore in May 1994 of its intention to revoke the Goldfarb Option pursuant to Paragraph 6 of the 1984 Settlement Agreement. Gore replied by denying that the conditions of Paragraph 6 had been satisfied by the Arizona Final Judgment because, according to Gore, claim 36 was unaffected by the Arizona court's decision. Bard thereafter brought this declaratory judgment action in the United States District Court for the District of New Jersey to determine the parties' rights. Jurisdiction was predicated on 28 U.S.C. § 1332.

B. Proceedings Below

At the close of discovery, Gore moved and Bard cross-moved for summary judgment on the question of whether the Arizona Final Judgment permitted Bard to invoke the condition subsequent embodied in Paragraph 6 of the 1984 Settlement Agreement.[4] Gore argued that the condition had not been satisfied because, on its face, the Arizona Final Judgment made no express mention of claim 36. Thus, Gore argued, the Arizona court's decision could not be said to have "held" claim 36 invalid.

Bard argued that because the Arizona court's express, detailed and binding findings of fact and rulings of law plainly applied to the entire '390 Patent, including claim 36 (a fact which Gore has never disputed), the Arizona court had "held" claim 36 invalid. Bard also argued that because standard principles of issue preclusion (collateral estoppel) would have barred Gore from asserting the validity of claim 36 in any other court, the only tenable conclusion was that claim 36 had been "held invalid" by the Arizona Final Judgment.

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[4] Gore had previously moved to dismiss Bard's declaratory judgment complaint for failure to state a claim upon which relief could be granted. The District Court granted that motion on July 26, 1997, but was subsequently reversed by the Third Circuit which remanded the case for discovery on July 13, 1998. Because those decisions are not here under review, Bard bypasses those decisions in this Petition.

Bard's argument as to the meaning of the term "holding" cited a then-recent ruling of the United States Court of Appeals for the Federal Circuit, *Teva Pharmaceuticals, USA, Inc. v. United States Food & Drug Administration*, 182 F.3d 1003 (D.C. Cir. 1999), which analyzed precisely the question presented here—the scope of a federal court's "holding." Consistently with the position advanced by Bard, the D.C. Circuit ruled in *Teva Pharmaceuticals* that a reliable way to know whether a court has rendered a "holding" on a particular issue is to determine whether preclusion principles would bar relitigation of that issue in the future.

On August 14, 2000, the District Court granted Gore's motion for summary judgment and denied Bard's cross-motion. The District Court decided that the Arizona Final Judgment had not "held" claim 36 invalid. Its decision was premised on the remarkable view that the content of the Arizona court's "holdings" must be determined solely by looking at the separate judgment document required by Federal Rule of Civil Procedure 58. (App. 17a-20a.) According to the District Court, it was impermissible to look for the Arizona court's holdings in its lengthy memorandum opinion setting forth the reasoning behind the Rule 58 judgment document. (*Id.*) The court also commented that the Arizona Final Judgment did not impliedly hold claim 36 invalid because

> [h]oldings of cases are explicit and they address the issues that have been presented to the court. Holdings are not implied from the similarity of the claims decided to other claims not asserted, especially in the area of patent litigation. Holdings are not derived by analogy from the issue-preclusive effect that a judgment may have.

(*Id.* at 22a.) Notably, the District Court made no attempt to reconcile its ruling with the directly contrary ruling of the D.C. Circuit in *Teva Pharmaceuticals*.

Bard timely noticed its appeal to the Third Circuit, which decided the case on December 6, 2001. Like the District Court, the Third Circuit decided that the Arizona Final Judgment had not "held" claim 36 invalid. The panel stated:

> Claim 36 was not held invalid by implication, because it is clear from the Arizona court's judgment that it was holding claims 9, 12, 16, and 35 invalid . . . We will not now decide that the Arizona court actually meant to "hold invalid" a claim that was never even placed into issue before it.

(*Id.* at 3a.) Just as the District Court had done, the Third Circuit adopted a mechanical, formalistic approach which examined only the face of the Arizona Final Judgment and did not analyze the substantive content of the Arizona court's findings and rulings. Nor did the Third Circuit confront the D.C. Circuit's contrary ruling in the *Teva Pharmaceuticals* case.

REASONS FOR GRANTING THE WRIT

This case illustrates the need for this Court to provide elucidation and guidance on a fundamental issue of federal civil procedure, as to which there is a clear difference of view between sister Circuits.

I. THE THIRD CIRCUIT'S DECISION CONCERNING THE SCOPE OF A COURT'S "HOLDING" CONFLICTS WITH THE DETERMINATION OF THE DISTRICT OF COLUMBIA CIRCUIT IN *TEVA PHARMACEUTICALS*

The writ should be granted because the Third Circuit has dramatically misunderstood a concept that lies at the very heart of the judicial process—*i.e.*, what constitutes a "holding." In so doing, it declined to follow clear and persuasive authority to the contrary from the District of Columbia Circuit.

To understand the error of the Third Circuit's approach, it is necessary first to understand precisely what the Arizona court actually decided. As demonstrated below, the Arizona court's analysis, findings and rulings were not limited to specific claims. Rather, they applied on their face to each and every claim of the '390 Patent, including claim 36.

The fact that the Arizona court held claim 36 invalid is most starkly demonstrated by its decision on the issue of enablement. For a patent claim to be "enabled," the detailed disclosure of the patent must teach "any person skilled in the art to which [an invention] pertains, or with which it is most nearly connected, [how] to make and use the same . . . ." 35 U.S.C. § 112. If it fails to do so, the claim is not enabled and is therefore invalid.

The '390 Patent contains 77 separate claims. Each and every one of those 77 claims pertains to a polymeric structure which has a specified "matrix tensile strength." [5] Claim 36 is no different in this regard from any other claim of the patent.

In the Arizona Action, the defendant IMPRA argued that the '390 Patent was not enabled because it did not teach one skilled in the art how to determine "matrix tensile strength." The Arizona district court agreed. It specifically held that the claims of the patent were not enabled because the patent "does not teach how any product produced in accordance with one of the claims should be tested to determine its matrix tensile strength," and "fails to disclose the preferred rate of stretching to achieve [the matrix tensile strength] element." 16 U.S.P.Q.2d at 1256.

Because the patent failed to provide anyone attempting to replicate the patented claims with sufficient information to determine what test should be applied and thus how to achieve the desired result, the Arizona court specifically

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[5] "Matrix tensile strength" appears on the face of certain claims and is incorporated by reference in all of the remaining claims.

found: "[t]he '390 Patent does not meet the enabling requirement because it does not specify the appropriate test for measuring tensile strength." *Id.* at 1260. The court's conclusions of law echoed this determination: "The '390 Patent did not meet the enablement requirements of 35 U.S.C. § 112." *Id.* at 1264.

It cannot be seriously disputed that the explicit findings and rulings that underlay this conclusion constituted a holding of the Arizona Final Judgment. Indeed, Gore's in-house counsel openly conceded at his deposition that the Arizona court's determinations with respect to the "matrix tensile strength" issue were part of its "holding."

As the text of the decision makes clear, the findings and rulings quoted above were not limited to any particular claims of the patent; rather, they applied to the patent as a whole. Indeed, because all claims of the '390 Patent incorporated the identical phrase "matrix tensile strength," there was no need for the findings and rulings to be so limited.

While the District Court below correctly noted that the amended Rule 58 document entered by the Arizona court referred only to the specific claims invoked by Gore in the Arizona Action, the Arizona court's "holdings" were not so limited. Because the identical phrase "matrix tensile strength" was included in each and every one of the '390 Patent's 77 claims, the Arizona court was entirely correct in ruling, in its Memorandum Opinion, that the patent as a whole was invalid. *Id.* at 1264.

The fact that the Arizona court's opinion does not expressly mention claim 36 by number is immaterial. The Arizona court did not confine its factual and legal determinations concerning lack of enablement to specific claims; rather, it spoke about "the '390 Patent" generally. Moreover, its determinations apply with as much force to claim 36 as to each and every one of the other claims of the '390 Patent (including claims 9, 12, 16 and 35). It borders on the absurd

to suggest that, even though the Arizona court explicitly held that the shared claim element "matrix tensile strength" was not enabled (a point which even Gore concedes), the court did not "hold" claim 36 invalid when that claim incorporated precisely the same claim element.

II. THE CORRECT APPROACH TO DETERMINING WHAT CONSTITUTES A "HOLDING" IS THAT OUTLINED BY THE DISTRICT OF COLUMBIA CIRCUIT IN *TEVA PHARMACEUTICALS*

As the District of Columbia Circuit ruled in *Teva Pharmaceuticals*, *supra*, a useful way to understand whether an earlier court decision encompassed a particular issue—and thus contained a "holding" on the issue—is to consider the law of issue preclusion (collateral estoppel). Issue preclusion bars the *re*litigation of issues actually decided in prior proceedings. *See United States v. Stauffer Chem. Co.*, 464 U.S. 165, 170 (1984) ("As commonly explained, the doctrine of collateral estoppel can apply to preclude relitigation of both issues of law and issues of fact if those issues were conclusively determined in a prior action.").

A. "Holdings" And Issue Preclusion Are Two Sides Of The Same Analytical Coin.

The fact that the notions of "holding" and "issue preclusion" are merely different ways of approaching the same concept is supported by both the academic literature and the case law. In discussing the word "holding," Professor Jane Ginsburg of Columbia University Law School has aptly observed:

> [T]o ask the question "What is the holding of a case?" is really to ask, "What fact situations can the rule of law of that case be said to govern?" *i.e.*, "As to what future cases does the decision of the case constitute binding

> authority?" . . . . [T]he answer to the question "What is the holding?" is a prediction that as to certain future fact situations the court will consider the decision governing.

Jane C. Ginsburg, LEGAL METHODS 93 (1996).

In *Teva Pharmaceuticals*, *supra*, the District of Columbia Circuit interpreted the word "holding" in precisely this manner. After observing that the term is not a rigid concept, the Court of Appeals noted that "the significance of a court's 'decision' or 'holding' often lies in its preclusive effect." 182 F.3d at 1008. In other words, to determine whether or not some action by a court constitutes a "holding," one inquires whether that action would be given preclusive effect by later courts. *See id.* (noting that when issue preclusion does not apply, there is no "holding").

In *Teva Pharmaceuticals*, the plaintiff company sought FDA approval to sell a generic form of a brand-name prescription drug. Under the applicable statute, Teva could do so if there was "a decision of a court *holding* the patent [to the name-brand drug] . . . invalid or not infringed." *Id.* (emphasis added). Teva had previously brought a declaratory judgment action against the patent owner. That suit, however, was dismissed for want of a case or controversy based on the patent owner's representation that it would not sue Teva.

Teva subsequently sought to have the FDA recognize that dismissal as the predicate "decision of a court holding the patent . . . invalid or not infringed" allowing Teva to market the generic drug. When the FDA refused to do so, Teva sought an injunction in federal district court. The district court ruled in favor of the FDA, but the D.C. Circuit reversed on appeal.

The court concluded that it would be arbitrary and capricious not to consider the first court's dismissal of Teva's complaint as a decision "holding the patent . . . invalid or not infringed" precisely because that decision would have

preclusive effect against the patent owner in any future suit. *Id.* at 1008-09. Thus, in direct contrast to the decision of the lower courts in this case, the D.C. Circuit held that it was arbitrary and capricious to decide that a ruling did not constitute a "holding" when that ruling would be entitled to preclusive effect in a subsequent action.

Two additional points about the *Teva* decision should be noted. First, the court in which Teva brought its original declaratory judgment action ruled only that "Teva lacks a reasonable apprehension of suit [by the patent owner]" and consequently that it lacked subject matter jurisdiction over the action. *Id.* at 1006. It did not expressly determine that the patent was "invalid" or "not infringed," the alternative predicates of the relevant statute. Nonetheless, the D.C. Circuit readily found that the prior action had "held" the patent "not infringed" within the meaning of the statute because the patent holder (based on its statement that it would not sue Teva) would forever have been estopped from suing Teva under the patent. *Id.* at 1009-10.

The D.C. Circuit stated: "[A] triggering 'court decision' need [not] explicitly hold the patent at issue is 'invalid' or is 'not infringed' in order [to satisfy the statute]." *Id.* at 1009. In sum, the D.C. Circuit had no difficulty finding that the prior action had implicitly "held" the patent "not infringed" even though the prior court nowhere expressly said so. Because non-infringement was the necessary consequence of what the court did find, the only reasonable conclusion was that the court had "held" the patent "not infringed." *See generally id.* at 1006-09.

It is also significant that the D.C. Circuit ruled that the dismissal of Teva's original complaint constituted a "holding" notwithstanding the fact that no other court had yet been called on to apply that holding preclusively. The mere fact that a future, hypothetical court would have to apply preclusion to the issue was sufficient to compel the

conclusion that the first court had already "held . . . the patent . . . invalid or not infringed." *See generally id.* at 1007-12. Indeed, when a second court applies the doctrine of issue preclusion, its determination is based on what the first court has already decided.

B. The Doctrine Of Issue Preclusion (Collateral Estoppel) Applies To Patent Claims Not Sued Upon.

When the approach taught by the District of Columbia Circuit for determining the scope of a court's "holding" is applied to the facts of this case, it is clear that the Arizona Final Judgment would have precluded Gore from asserting the validity of claim 36 in any future court action, and thus that the necessary invalidity of that claim was actually a "holding" of the Arizona court.

It is well settled that issue preclusion principles apply to the various claims of a patent with no less force than in other areas of the law. *See, e.g., Westwood Chem., Inc. v. United States*, 525 F.2d 1367 (Ct. Cl. 1975) (applying collateral estoppel to bar litigation of patent claims not specifically adjudicated in prior lawsuit when the unadjudicated claims presented identical issues); *Westwood Chem., Inc. v. Molded Fiber Glass Body Co.*, 498 F.2d 1115 (6th Cir. 1974) (same); *Technograph Printed Circuits, Ltd. v. Methode Elec., Inc.*, 484 F.2d 905 (7th Cir. 1973) (same); *see also Blonder-Tongue Labs., Inc. v. University of Ill. Found.*, 402 U.S. 313 (1971).

Bourns, Inc. v. United States, 537 F.2d 486 (Ct. Cl. 1976) makes the rationale for this rule clear. In applying issue preclusion to bar *re*litigation of patent claims not expressly addressed in a prior proceeding, the Court of Claims (the predecessor to the Federal Circuit) stated:

> It is the identity of the *issues* litigated and decided, and which were essential to the prior judgment, that determines whether the estoppel should be applied . . . .

> There is no reason to employ a different approach in a patent context by looking to the claims litigated instead of to the issues that were decided.
>
> . . . In reaching that conclusion, recognition is given to plaintiffs' arguments regarding due process and the further argument that each claim is to be presumed valid and treated as a complete and independent invention. However, by focusing on the issues of fact and law necessary to a resolution of the obviousness issue, . . . a determination can be made whether the unadjudicated claims present any new issues which, to afford due process, would require a trial on the merits or whether litigation on those claims would simply be a repetitious lawsuit over matters which have once been decided.

Id. at 491-92 (italics in original) (citations omitted). In sum, contrary to the assertions of the courts below, rulings on the validity of one patent claim can and do directly affect the validity of other claims that have not been sued on.

The Arizona district court expressly found and ruled that the concept of "matrix tensile strength" was insufficiently defined and therefore not enabled by the patent. This holding necessarily meant that each and every claim of the patent that incorporated a "matrix tensile strength" element (including claim 36) was invalid. Indeed, Gore has never challenged Bard's repeated assertions that, unless reversed, the Arizona Final Judgment would have forever precluded Gore from asserting claim 36 against an alleged infringer. Instead, Gore has mechanically insisted (and the courts below have agreed) that solely because the Arizona Final Judgment did not specifically mention claim 36 by number, that claim was not "held" invalid. As argued above, and as the D.C. Circuit earlier ruled in an analogous situation, this position fundamentally misconstrues the concept of a "holding."

III. THE CONFLICT IN APPROACHES ILLUSTRATED BY THE THIRD CIRCUIT'S DECISION IN THIS CASE AND THE DISTRICT OF COLUMBIA CIRCUIT'S DECISION IN *TEVA PHARMACEUTICALS* ILLUSTRATES THE NEED FOR GUIDANCE FROM THIS COURT

The concept of "holding" is of central importance in American jurisprudence. Indeed, it underlies the very principle of *stare decisis*. Bard respectfully submits that the Third Circuit's decision, echoing that of the trial court, illustrates the extent of judicial confusion that still exists with respect to the terms "holds" and "holding," and stands in stark contrast to the intellectually-nuanced analysis engaged in by the District of Columbia Circuit. By granting this petition, the Court would have an opportunity to resolve, for future courts and litigants, the correct approach to determining what constitutes a judicial "holding."

In this case, both the District Court and the Third Circuit adhered to a narrow, mechanistic interpretation under which "holdings" are limited to the express statements made on courts' Rule 58 judgment documents. In so doing, they not only broke ranks with the D.C. Circuit, but departed from the jurisprudence of this Court (and virtually every other federal court) showing that "holdings" need not be explicit. Even the most cursory research reveals literally thousands of cases discussing and applying "implicit holdings." *See, e.g., United States v. Sioux Nation of Indians*, 448 U.S. 371, 407 (1980) (observing that the Court had earlier "implicitly held" that "Congress' mere waiver of the res judicata effect of a prior judicial decision rejecting the validity of a legal claim against the United States does not violate the doctrine of separation of powers.").

To the best of Bard's knowledge, prior decisions of this Court have not squarely addressed the issue of how to

determine the "holding" of a prior case. A decision in this case would bring greater analytical clarity to an important area of procedural law.

CONCLUSION

For all the foregoing reasons, Bard's Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

LAWRENCE H. MARTIN
FOLEY, HOAG & ELIOT LLP
1747 Pennsylvania Avenue, NW
Washington, DC 20006
(202) 223-1200

PETER B. ELLIS *
FOLEY, HOAG & ELIOT LLP
One Post Office Square
Boston, MA 02109
(617) 832-1000

Counsel for Petitioner

* Counsel of Record

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

[Filed December 6, 2001]

No. 00-2728

C.R. BARD, INC.,

Appellant,

v.

W.L. GORE & ASSOCIATES, INC.

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civil No. 97-cv-00517)
District Judge: Honorable John C. Liftland

Argued November 8, 2001

MEMORANDUM OPINION

Before: McKEE, RENDELL, and STAPLETON, *Circuit Judges*.

RENDELL, *Circuit Judge*.

C.R. Bard, Inc. ("Bard") appeals the District Court's grant of summary judgment in favor of W.L. Gore and Associates, Inc. ("Gore"). We agree with the District Court that the actual language of the parties' settlement agreement neces-

sitates judgment for Appellee as a matter of law, and, accordingly, we will affirm the District Court's grant of summary judgment.

The District Court had jurisdiction based on 28 U.S.C. § 1332. We exercise jurisdiction pursuant to 28 U.S.C. § 1291. Our review of the District Court's summary judgment ruling is plenary. *Armbruster v. Unisys Corp.*, 32 F.3d 768, 777 (3d Cir. 1994).

As we write solely for the parties, who are familiar with the facts and procedural background of this case, we will only discuss the legal issues presented and material facts relating thereto.

The issue before the District Court was essentially whether the conditions specified in paragraph six of Bard and Gore's 1984 settlement agreement had occurred. Specifically, whether the litigation between Gore and International Medical Prosthetics Research Associates, Inc. ("IMPRA") in the United States District Court for District of Arizona ("Arizona court") resulted in "a Final Judgment . . . which [held] invalid each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35 and 36 of the ['390 Patent] . . . ." App. at 165D. The District Court found that such a final judgment did not occur, because the Arizona court only held claims 9, 12, 16, and 35 invalid, and therefore Bard improperly withdrew Gore's option to obtain a license in the "Goldfarb patent." [1] App. at 1-22.

We agree with the District Court that the words of the contract here, the 1984 settlement agreement, are clear and unambiguous. Because no evidence was provided that the parties intended another meaning, we will not deviate from the express words of the contract. *See American Cyanamid*

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[1] Appellant makes an additional argument regarding the effect of the Arizona court's vacatur that need not be addressed in light of our ruling.

Co. v. Fermenta Animal Health Co., 54 F.3d 177, 182 (3d Cir. 1995). According to the words of the contract, "each and every one of" five claims must be held invalid, therefore four out of five of the claims being held invalid is not enough to satisfy the condition subsequent.

We also reject Appellant's argument that "holds invalid" has a broader meaning than what is explicitly stated in the Arizona court's amended judgment. Claim 36 was not held invalid by implication, because it is clear from the Arizona court's judgment that it was only holding claims 9, 12, 16, and 35 invalid. App. at 935-36. We will not now decide that the Arizona court actually meant to "hold invalid" a claim that was never even placed into issue before it. We also reject the argument that claim 36 was "held invalid" because it is necessarily invalid as a derivative of the other claims. App. at 934-36. That analysis would involve an exercise not anticipated by the plain language of the parties' agreement. Further, as the District Court explained: "the fact that two claims of a patent are invalidated does not mean that a third claim that is a combination of some of the elements of those invalid claims is necessarily invalidated as well." App. at 17.

In addition, as the District Court properly reasoned:

> [T]he Court will not rewrite the voluntarily negotiated and mutually adopted 1984 Settlement Agreement just because one of the parties is unhappy with it now. Because of the absence of any evidence supporting Bard's current reading, the Court finds that these sophisticated parties and their competent legal counsel meant what they said when they set forth the very specific requirement that a federal court must hold invalid "each and every claim asserted against Bard,"

and then went on to list by number all five claims, "claims 9, 12, 16, 35 and 36," before the Goldfarb option may be withdrawn.

Because the Arizona court's final judgment did not hold claim 36 invalid, we find that the District Court properly ruled that Appellee was entitled to judgment as a matter of law.

We will affirm the District Court's judgment.

Please file the foregoing memorandum opinion.

/s/ Marjorie O. Rendell
MARJORIE O. RENDELL
Circuit Judge

Dated: Dec. 6, 2001

APPENDIX B

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

[Filed Aug, 14, 2000]

CIVIL ACTION NO. 97-517 (JCL)

C.R. BARD. INC.,

Plaintiff,

v.

W.L. GORE & ASSOCIATES, INC.,

Defendant.

OPINION

LIFLAND, *District Judge*

Presently before the Court are defendant's motion for summary judgment dismissing plaintiff's complaint and plaintiff's cross-motion for summary judgment. At issue is whether plaintiff was justified in terminating defendant's option rights to a patent license under the terms of a 1984 settlement agreement between the parties. For the reasons set forth herein, defendant's motion will be granted and plaintiffs cross-motion will be denied.

BACKGROUND

Plaintiff C.R. Bard. Inc. ("Bard") filed this suit against defendant W.L. Gore & Associates. Inc. ("Gore") seeking a declaratory judgment of the rights of the parties under a settlement agreement between them entered into in resolution of a 1984 patent infringement lawsuit ("the 1984 Settlement Agreement"). Bard seeks a declaration that it properly withdrew a contractual option to a patent license. Bard had

granted the option to Gore as part of the 1984 Settlement Agreement. Bard asserts that the contractual condition subsequent allowing withdrawal has occurred or in the alternative, that the condition should be excused because Gore demonstrated bad faith by hindering the occurrence of the condition.

Gore contends that the condition subsequent has not occurred and that Bard thus wrongfully served notice that it was withdrawing the option.

Gore has moved for summary judgment dismissing Bard's complaint in its entirety, arguing that Bard is not entitled to a declaratory judgment because the condition subsequent has not occurred and because Gore did not hinder the condition's occurrence in bad faith. Bard has cross-moved for summary judgment on its complaint, arguing that it is entitled to a declaratory judgment that it was justified in withdrawing the patent license.

The following facts are undisputed. Bard and Gore each manufacture and sell healthcare products, including products for the treatment of cardiovascular problems such as intravascular implants. Gore owned U.S. Patent No. 4,187,390 ("the '390 Patent"), which issued in June 1977 and is now expired; the patent pertains to a prosthetic vascular graft made of expanded polytetrafluoroethylene ("e-PTFE"). Gore sued Bard in 1984 ("the Initial Action"), alleging that Bard's manufacture of similar vascular grafts made of e-PTFE constituted infringement of claims 9, 12, 16, 35. and 36 of the '390 patent.

After limited discovery in the Initial Action, the parties entered into the 1984 Settlement Agreement. Bard consented to the entry of a final judgment and a permanent injunction requiring Bard to cease manufacturing the vascular grafts, destroy its remaining stock of e-PTFE vascular grafts, pay Gore $600,000, and grant Gore an option to obtain a

non-exclusive sublicense to use a then-pending patent ("the Goldfarb patent") for another prosthetic vascular graft. At Bard's request, that option ("the Goldfarb option") was made subject to a condition subsequent under which the option could be withdrawn. Paragraph 6 of the 1984 Settlement Agreement, which sets forth the conditions under which the option may be withdrawn, states as follows:

> In the event that there is a final judgment of a United States court from which no appeal has been or can be taken and which holds invalid each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35, and 36 of United States Patent No. 4,187,390, then Bard may, in its sole discretion, to be exercised by notifying W.L. Gore in writing, withdraw the option to obtain a sub-license under any patents issuing on the Goldfarb patent application as set forth in Paragraph 3 hereof or cancel any such sub-license if previously granted.

(Ellis Decl. Ex. 5. ¶ 6). Whether this condition subsequent was met, or should be excused because Gore hindered its occurrence in bad faith, and thus whether withdrawal of the Goldfarb option was justified, is the focus of the present lawsuit.

Bard's lead counsel in the Initial Action was Charles Smith, Esq., of the law firm Fish & Neave. Gore's lead counsel was David H. Pfeffer, Esq., of the law firm Morgan & Finnegan. The 1984 Settlement Agreement was the result of discussions between Smith and Pfeffer on behalf of and in consultation with their respective clients. No direct discussions were held among the parties themselves. The initial draft of the 1984 Settlement Agreement was prepared by Pfeffer and was sent to Smith for review. Smith made certain changes to the draft and returned it to Pfeffer. Those changes were incorporated and the 1984 Settlement Agreement took effect on March 26, 1984.

There has been discovery, and neither Smith nor Pfeffer recalls the details of the conversations that resulted in the 1984 Settlement Agreement and neither can recall any specific discussions concerning Paragraph 6. Furthermore, neither attorney recalls the parties having expressed any intentions with regard to any special meaning of the terms used in Paragraph 6.

Shortly after the 1984 Settlement Agreement, Gore sued International Medical Prosthetics Research Associates, Inc. ("IMPRA") in the United States District Court for the District of Arizona, alleging that IMPRA's vascular graft infringed Gore's '390 patent. In that lawsuit, Gore asserted claims 9, 12, 16, and 35 of the '390 patent, but not claim 36. The Arizona court entered judgment in IMPRA's favor on July 10, 1990. It held all of the asserted claims to be invalid ("the Arizona Judgment"). The Arizona court certified its judgment as a final judgment under Federal Rule of Civil Procedure 54(b) in order to allow an immediate appeal to the Federal Circuit.[1]

Gore appealed to the Federal Circuit; the appeal was fully briefed and oral argument was heard. Before the Federal Circuit issued a decision, IMPRA and Gore settled their dispute by way of a settlement agreement dated July 7, 1993 ("the Arizona Settlement Agreement"). In accordance with the settlement, the parties filed a joint motion to dismiss the appeal. That motion included a joint request from the parties that the Federal Circuit vacate the Arizona Judgment. The Federal Circuit issued an order dismissing the appeal and vacating the Arizona Judgment on August 4, 1993. Pursuant thereto, the Arizona District Court entered judgment dismissing the action on October 1, 1993.

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[1] IMPRA had also asserted counterclaims for anti-trust violations and unfair competition, but they were bifurcated from the patent claims for later discovery and trial. They were not addressed in the court's July 10, 1990 decision.

In May 1994, Bard gave written notice to Gore that it intended to withdraw the Goldfarb option, stating that the condition subsequent allowing withdrawal had occurred. In response, Gore denied that the condition subsequent had occurred. The '390 patent expired on April 27, 1993.

In September 1996, Bard acquired 100 percent of the outstanding stock of IMPRA, and IMPRA has since been a wholly-owned subsidiary of Bard.

Bard commenced this action on January 31, 1997 and seeks a declaratory judgment that it properly withdrew the Goldfarb option because the condition subsequent contained in Paragraph 6 of the 1984 Settlement Agreement had occurred. Bard contends that the Arizona decision invalidated all five of the claims that Gore had asserted against Bard in the Initial Action and that Bard was thus justified in withdrawing the option.

In an Order dated July 27, 1997, this Court granted Gore's motion to dismiss the complaint pursuant to Federal Rule of Civil Procedure 12(b)(6). The Court found that Bard did not have the right to withdraw the Goldfarb option because the Arizona Judgment did not address claim 36 and thus the condition allowing withdrawal of the Goldfarb option—that a final judgment of a federal court hold invalid each and every one of the five claims asserted in the Initial Action—did not occur.

The Third Circuit reversed this Court's decision on August 6, 1997. It held that this Court should not have resolved the case on a motion to dismiss but should have allowed discovery into the intent of the parties regarding the terms of Paragraph 6 when they entered into the 1984 Settlement Agreement. Specifically, the Third Circuit stated, "we are not satisfied that at this stage of the proceedings the complaint should be so confined that it cannot accommodate Bard's theory that the Arizona litigation held claim 36, as well as the other claims, invalid." The opinion also noted, "While it well may be that at the end of discovery if Gore

moves for summary judgment the court may determine that its initial conclusion was correct, still Bard, and, of course, Gore as well, should have the opportunity to engage in the discovery process." The parties have since engaged in discovery and both parties have now moved for summary judgment on the only disputed issue, whether the condition subsequent in the 1984 Settlement Agreement has occurred.

STANDARD OF REVIEW

Summary judgment may be granted if the record indicates that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. *See* Fed. R. Civ. P. 56(c); *Valente v. Pepsico, Inc.*, 454 F. Supp. 1228, 1235 (D. Del. 1978). Where the material facts are not in dispute and the issues contested in a summary judgment motion are legal issues, the court may proceed to decide the legal issues and rule accordingly on the summary judgment motion. *See Ingram v. County of Bucks*, 144 F.3d 265, 267 (3d Cir.1998). As will be seen, such is the case here.

DISCUSSION

A settlement agreement is a contract and is interpreted according to principles of state contract law. *See Wilcher v. City of Wilmington*, 139 F.3d 366, 372 (3d Cir.1998). When examining a contract, the court must seek the intent of the contracting parties as they objectively manifest it. *See Sanford Investment Co., Inc. v. Ahlstrom Mach. Holdings, Inc.*, 198 F.3d 415, 421 (3d Cir.1999). The court must ascertain the intent of the parties as it is expressed in the language of the contract and the surrounding circumstances rather than in the subjective view of any of the parties. *See Air Master Sales Co v. Northbridge Park Co-Op, Inc.*, 748 F. Supp. 1110, 1115 (D.N.J. 1990) (citing *Dome Petro. Ltd. v. Employers Mut. Liability Ins. Co.*, 767 F.2d 43, 47 (3d Cir. 1985) (stating that interpretation of a contract depends not on

"discovery of undisclosed subjective intent," but on the manifestation of intent in the language of the contract and the surrounding circumstances)). This is a two step-process that requires the court first to ask if the contract is ambiguous, which is a question of law for the court to resolve. *See Sanford Investment*, 198 F.3d at 421. If the court finds that the contract is ambiguous, then the second step is to interpret the contract's terms, which is a question of fact to be resolved by the fact finder in light of the evidence offered by the parties to support their respective interpretations. *See id.*

In conducting the first step, inquiring into whether the contract is ambiguous, the court "assumes that the intent of the parties . . . is embodied in the writing itself, and when the words are clear and unambiguous the intent is to be discovered only from the express language of the agreement." *Id.* (citing *Pacitti v. Macy's*, 193 F.3d 766, 773 (3d Cir. 1999)). But the court is not bound by the four corners of the contract and it may assess the contract in the context in which it was made to determine the parties' intentions. *See id.* The court may consider, among other things, "the words of the contract, the alternative meaning suggested by counsel, and the nature of the objective evidence to be offered in support of that meaning." *See id.* (quoting *Mellon Bank, N.A. v. Aetna Business Credit, Inc.*, 619 F.2d 1001, 1011 (3d Cir. 1980)). A term is ambiguous if it is susceptible to more than one reasonable interpretation. *See Sanford Investment*, 198 F.3d at 421 (citing *Mellon Bank*, 619 F.2d at 1011 (defining ambiguity as an "[i]ntellectual uncertainty [or] the condition of admitting two or more meanings, of being understood in more than one way, or referring to two or more things at the same time . . . .")).

When looking to the circumstances surrounding the contract, the court must remain focused on the language chosen by the parties and give the words their "commonly understood meaning" where that meaning is unambiguous

and the extrinsic evidence would not suggest a different meaning. *See American Cyanamid Co. v. Fermenta Animal Health Co.*, 54 F.3d 177, 182 (3d Cir. 1995) ("[T]he focus must remain on the language chosen by the parties, and a text unambiguous when accorded the commonly understood meaning of its words cannot be disregarded unless the extrinsic evidence is such as might cause a reasonable fact finder to understand the text differently.") (citing *Mellon Bank*, 619 F.2d at 1011 & 1012 n.13). When the factual evidence does not indicate that the parties intended the language of the contract to have any special meaning beyond the common meaning of the contract's terms, there is no reason for the court to deviate from those words. *See Proprietor's Realty Co. v. Wohltmann*, 95 N.J.L. 303, 304 (1921) ("In construing a written contract the words employed will be given their ordinary and popularly accepted meaning, in the absence of anything to show that they were used in a different sense.").

1) *The Settlement's Terms*

To prevail on its motion for summary judgment, Gore must demonstrate that any one of the conditions specified in Paragraph 6 of the 1984 Settlement Agreement did not occur, that is, that a federal court did not render a

> final judgment from which no appeal has been or can be taken . . . which holds invalid each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35, and 36 of the United States Patent No. 4,187,390.

To prevail on its cross-motion for summary judgment, Bard must demonstrate that all of these conditions occurred.

Now that discovery has been conducted and completed, the parties agree that there was no special intent of the parties embodied in the terms of Paragraph 6 of the 1984 Settlement Agreement, other than the plain meaning of the words. Thus, after more than two years of discovery after this case was

remanded, the Court returns to the issue of whether the plain meaning of the terms of Paragraph 6 were met by the Arizona Judgment.

Gore argues that the plain meaning of Paragraph 6 is that all five claims that Gore asserted against Bard in the Initial Action must be specifically held invalid in a final judgment by a federal court before Bard would be justified in withdrawing the Goldfarb option. Gore argues that the Arizona Judgment does not come within that plain meaning because only four of the five claims were raised and adjudicated in the Arizona action. Gore argues that the plain meaning of "each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35 and 36" is that a federal court must specifically hold all five claims, not four out of five, to be invalid.

Bard responds that the Court's focus should not be on the words "each and every one of the claims"' but on the words "holds invalid," and Bard offers two arguments that the Arizona Judgment held invalid claim 36 and thus satisfied the terms of Paragraph 6 and justified withdrawal of the Goldfarb option. First, Bard argues that the Arizona Judgment expressly invalidated claim 36 because it invalidated the entire '390 Patent. Second, Bard argues that the Arizona Judgment impliedly held claim 36 invalid, because its invalidation of the other four claims would have a collateral estoppel effect barring Gore from asserting the validity of claims under the '390 patent, including claim 36; thus, Bard argues invalidation of claim 36 must have been part in the holding of the Arizona Judgment.

a) *Plain Meaning*

As discussed above, in the absence of a special meaning indicated by the evidence, the Court must grant to the terms of a contract the commonly understood meaning of the words. *See American Cyanamid*, 54 F.3d at 182. In deciding the prior motion to dismiss in this case, this Court found that the

meaning of Paragraph 6 of the 1984 Settlement Agreement was plain, that is, that "final judgment . . . which holds invalid each and every one of the claims" means that every single claim asserted in the Initial Action must be held invalid by a later court ruling before the Goldfarb Option could be withdrawn. The language of Paragraph 6 appears to have been carefully crafted, its words chosen with deliberate precision by highly competent legal counsel for sophisticated parties who deal regularly with patent claims. Given those surrounding circumstances, the Court found that by stating that "each and every one of the claims" and then going on to list them, "*i.e.*, claims 9, 12, 16, 35, and 36 of the United States Patent No. 4,187,390," the parties contemplated that there could be a subsequent judgment addressing fewer than all five of the claims asserted in the Initial Action. The precise language of Paragraph 6 underscores the intent of the parties that a judgment that invalidated fewer than all five claims would not be sufficient to satisfy the condition subsequent and allow withdrawal of the Goldfarb option.

Pursuant to remand from the Court of Appeals, the parties have engaged in discovery into the intent of the parties regarding the terms of the 1984 Settlement Agreement. The Court of Appeals noted that this Court would be "assisted in ascertaining that by allowing the parties to engage in discovery, particularly insofar as it reveals the circumstances leading to the execution of the settlement agreement." *C.R. Bard. Inc. v. W.L. Gore & Assocs.*, No. 97-5563, (3d Cir. July 9, 1998). slip op. at 5.

Now that discovery in this case is complete, the parties are in agreement that discovery unearthed nothing about the intent of the parties when writing and agreeing to the terms in Paragraph 6 beyond the plain meaning of those terms. The lawyers for both sides were deposed and offered no insight into any special meaning or intent behind the words chosen, and the surrounding circumstances have not changed. Thus,

the Court finds that it is in a similar position as that of three years ago when it determined that the meaning of the terms of Paragraph 6 was plain on its face and that "final judgment . . . which holds invalid each and every one of the claims" means that a court's final judgment must specifically hold invalid every one of the claims—"*i.e.*, claims 9, 12, 16, 35, and 36 of the United States Patent No. 4,187,390"—before Bard would be entitled to withdraw the Goldfarb option. That meaning still appears plain on its face. "Each and every one of the claims," followed by a recitation by number of those five claims, means all five claims, not four out of five. Thus, the Court finds that Gore has met its summary judgment burden of demonstrating that it is entitled to judgment as a matter of law dismissing Bard's claim for declaratory relief.

However, Bard asserts that this Court should find instead that, as a matter of law, the term "holds invalid" has a broader meaning than the explicit holding of a court ruling on the claims before it and can accommodate its theory that the Arizona Judgment invalidated claim 36 by implication even though that claim was never before the Court.

Bard's argument that the Arizona decision held claim 36 invalid is two-fold. First, Bard argues that the Arizona court expressly held the entire '390 patent to be invalid and thus claim 36 was invalidated by the court along with the other four claims asserted against IMPRA. Second, Bard argues that because claim 36 is derivative of claims 9 and 35 and, since the Arizona court declared invalid claims 9 and 35, it necessarily declared claim 36 invalid as well. The Court will address Bard's arguments in turn.

b) *Express Invalidation of Claim 36*

As to Bard's claim that the Arizona decision expressly invalidated the entire '390 patent and therefore all claims in that patent, it is true that at times the Arizona court's opinion and the initial judgment issued with it speak in broad terms

and may seem to be invalidating the entire '390 patent and not just the four claims that were the focus of the Arizona litigation. The judgment originally issued states. "5. The '390 Patent was anticipated by Sumitomo. 6. The '390 Patent was obvious. 7. The '390 Patent did not meet the enabling requirement of 35 U.S.C. § 112." *See W.L. Gore & Assocs. v. IMPRA*, 16 U.S.P.Q.2d 1241, 1264 (D. Ariz. 1990). On its face, the court's ruling on anticipation, obviousness, and enablement does not seem limited to any specific claim in the patent, but rather seems to apply to the entire '390 Patent.

However, the Arizona court issued an Amended Judgment that stated that a "clerical error of the clerk" had resulted in the wrong judgment being entered. The Amended Judgment, which constituted the court's finding and judgment on the case before it according to Rules 52(a), 54, and 58 of the Federal Rules of Civil Procedure, specifically references by number the four claims that were before the court when stating each of the court's findings. Thus, the Amended Judgment states instead: "5. *Claims 9, 12, 16 and 35* of the '390 Patent were anticipated by Sumitomo. 6. *Claims 9, 12, 16 and 35* of the '390 Patent were obvious. 7. The '390 Patent did not meet the enabling requirement of 35 U.S.C. § 112 *with respect to claims 9, 12, 16 and 35*." (Amended Judgment, Ellis Decl. Ex. 1-3) (emphasis added).

It is disingenuous of Bard to argue that the Arizona court expressly held invalid the entire '390 Patent when the court so clearly took pains to clarify its ruling so that it could not be construed to apply to all claims in the '390 Patent and to emphasize that its holding applied only to the four claims actually presented to and litigated before the court. The Arizona court's final judgment did not expressly hold the entire '390 Patent invalid.

c) *Implied Invalidation of Claim 36*

Bard also asserts that the Arizona Judgment invalidated Claim 36 by implication. Bard argues that to interpret the Arizona court's holding as restricted to its Rule 52(a) findings and rulings as contained in the Amended Judgment would "put[] too narrow a gloss on the word 'held.'" (Pl.'s Br. at 15). Rather than interpret the court's "holding" as its ruling on the claims that were before it, Bard argues that a court's holding can encompass additional matters that are "implicit" in the court's legal opinion and in the collateral effects of its decision. In sum, Bard urges this Court to accept that the "holdings" of a case "may be implicit as well as explicit." (Pl.'s Br. at 18).

The plain language of the 1984 Settlement Agreement requires that the holding of the federal court be part of a final judgment in order to meet the terms of the condition subsequent. Thus this Court must view the Arizona court's holding in conjunction with its final judgment. The Arizona action was tried to the court. The trial court issued findings of fact and conclusions of law as required by Rule 52 of the Federal Rules of Civil Procedure and entered judgment as required by Rule 58. As discussed above, the final judgment issued by the Arizona court referenced only claims 9, 12, 16, and 35, and not claim 36.

Bard's argument that the holding of a court may be inferred from its opinion may have been more viable prior to the 1963 amendments to the Federal Rules of Civil Procedure, which clarified what constitutes a final judgment. Historically, appeals courts reviewing a trial court's judgment sometimes inferred the terms of the trial court's final judgment from the trial court's opinion if the trial court failed to enter a clear judgment order in the case. *See, e.g., United States v. F. & M. Schaefer Brewing Co.*, 356 U.S. 227 (1958) (holding that an opinion, which embodies the essential elements of a

judgment and clearly evidences the judge's intention that it shall be his final act in the case, can constitute the final judgment, but that where an opinion by the trial court that "seemed to have the trappings of a judgment" was followed by a signed "formal judgment" entered by the judge, it was this final judgment, not the opinion that governed); *Steccone v. Morse-Starrett Prods. Co.*, 191 F.2d 197 (9th Cir.1951) (finding that a memorandum opinion signed by the district court judge that adjudicated all of the matters in controversy and set forth the orders of the court was considered the final judgment); *In re Forstner Chain Corp.*, 177 F.2d 572 (1st Cir.1949) (where the district judge filed a document titled "Opinion" that reached the conclusion that a claim of a patent was invalid, the language of the opinion indicated that a judgment was to be entered and the local practice indicated that no subsequent formal procedures were required, the appellate court held that the opinion was the judgment). The so-called *Schaefer* test required an inquiry into the intention of the judge when rendering the opinion to determine what was the final judgment rendered by the court. *See Schaefer Brewing*, 356 U.S. at 233 ("While an opinion may embody a *final decision*, the question whether it does so depends on whether the judge has or has not clearly declared his intention in this respect in his opinion."). In *Schaefer*, the Supreme Court found that regardless of an opinion issued by the court, the court's *final decision*, the holding on the matters presented to the court, was embodied in the final judgment entered subsequent to the court's opinion, not in the statements in the opinion. *See id.*

Even applying *Schaefer* to the present matter, it is clear that, like the district judge in *Schaefer*, the Arizona court did not intend its opinion to be the final judgment in the case. It could not be any clearer from the language of the court's Amended Judgment that the court intended to rule only on claims 9, 12, 16, and 35 and not to pass judgment on the entire '390 Patent or any other claims. Even under *Schaefer*,

there is no room to imply a meaning from the court's opinion beyond that contained in the court's judgment, especially when the court has taken pains objectively to express its intention by clarifying the effect of its opinion through an amended judgment that was intended to erase any possible confusion caused by an erroneously docketed, less-specific judgment.

However, this Court need not apply the *Schaefer* standard because the Federal Rules of Civil Procedure have simplified its inquiry. The *Schaefer* test was viewed as "unworkable" by some commentators because courts were in disagreement as to whether the final holding of the court could be objectively inferred from the opinion. *See* 10 Wright & Miller § 2651 at 12-13. As a result, Rule 58 was amended in 1963 to clarify perceived difficulties in applying the *Schaefer* test to determine what qualifies as a final judgment. Inquiry into the judge's intent was eliminated and there is now a bright line rule. *See* 10 Wright & Miller § 2651 at 13. Rule 58 now states: "Every judgment shall be set forth on a separate document. A judgment is effective only when so set forth . . ."). *Fed. R. Civ. P.* 58. Thus, "it no longer is possible for a decision to constitute a judgment unless that requirement is satisfied." 10 Wright & Miller § 2651 at 13.

As stated above, the holding of a federal court must be embodied in a "final judgment" in order to satisfy the requirements of Paragraph 6 of the 1984 Settlement Agreement. The terms "final judgment" and "holds invalid" in the 1984 Settlement Agreement are dependent upon one another. For this Court to determine the "holding" of the Arizona court, this Court must look to the final judgment that was entered in the case. As stated above, that final judgment is represented by the Amended Judgment issued after trial to the court pursuant to Rule 58. That final judgment lists Claims 9, 12, 16, and 35 as those which were invalidated. The Amended Judgment removes any doubt as to whether the

court's holding encompassed Claim 36 or any other claims in the '390 Patent that were not dealt with in the Amended Judgment. Applying both the *Schaefer* rule and the clear language of the Rules of Civil Procedure, the Court is satisfied that the "final judgment" in the Arizona case cannot be expanded beyond what is stated in the final judgment rendered by the court. That final judgment did not encompass Claim 36. The Court sees no room to imply a holding beyond that reflected in the final judgment. Given the evolution of the case law and the Rules of Civil Procedure on this issue, and the plain language of the 1984 Settlement Agreement, the Court is unable to accept Bard's theory that a court's "holding" in a case may be inferred from an expansive reading of a court's opinion rather than from the terms of the judgment issued by the court in conjunction with that opinion.

Bard presses two creative arguments on the Court. First, it urges the Court to compare "holdings" to "dicta" and argues that anything stated in the Arizona court's opinion that is not dicta is part of the holding of the case. Thus, because the Arizona court's broad language regarding the anticipation, obviousness, and enablement of the '390 Patent are not dicta, they must be the holding of the court and thus must apply to claim 36. Second, Bard asks the Court to consider the collateral estoppel effects that the Arizona Judgment would have and argues that the estoppel effect of the decision is equivalent to its holding. Bard argues that, because of the Arizona Judgment, Gore would be collaterally estoppel from asserting the validity of claim 36 in a subsequent case. Thus, Bard argues that the invalidation of claim 36 must be part of the "holding" of the Arizona Judgment. Because of the specificity with which the Arizona court spoke in the Amended Judgment, and because the circumstances which led to the Amended Judgment were an inadvertently too-broad expression of the Arizona court's decision in its original judgment, there is now no room for Bard to argue that the true meaning of the Arizona Amended Judgment is

what the Arizona judge deleted and replaced because it was too broad. This is the effect of Bard's creative argument, which this court rejects.

Underlying Bard's collateral estoppel argument is its view that another court would preclude Gore from defending the validity of claim 36 because of what the Arizona court ruled. The court disagrees.

Bard argues that claim 36 is "derivative" of claims 9 and 35 and that if claims 9 and 35 are invalid, a claim that is "derivative" of them must be invalid too. In the area of adjudicating the validity of patent claims, it is particularly inappropriate to allow the invalidation of one claim to "spill over" and adversely affect the validity of a claim not expressly invalidated. This is so because each claim of a patent is independent of other claims of that patent and is presumed valid independent of the validity or invalidity of other claims of the patent. *See* 35 U.S.C. § 282 ("Each claim of a patent . . . shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim."); *see also Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 301, 319 (1909) ("[Patent] [c]laims are independent inventions. One may be infringed, others not. . . . One claim may be valid, all the rest invalid,—invalid for the want of some essential patentable attribute. . . . [T]he patent does not stand or fall as a unity.").

It follows that the fact that two claims of a patent are invalidated does not mean that a third claim that is a combination of some of the elements of those invalid claims is necessarily invalidated as well. Claim 36 is a combination of parts of claims 9 and 35, but that does not mean that it is derivative of those claims. Claim 36 is similar to claim 35 in shape only and it is dissimilar in strength and crystallinity. Claim 36 is similar to claim 9 in strength and crystallinity, yet its structure is different, claim 9 being a polytetra-

fluoroethylene polymer and Claim 36 being a tetrafluoroethylene polymer. Thus, claims 9 and 35 are distinct claims from claim 36 and claim 36 cannot be said to be derivative of the other two. The fact that claim 36 may have some of the elements of claims 9 and 35 does not make it a derivative claim. Combination claims are not derivative claims, they are claims in their own right. Thus, the fact that the two claims that were invalidated have similarities to claim 36 does not mean that claim 36 itself was necessarily invalidated as a result.

Finally, Bard has pointed to no evidence that its unique understandings of a court's holding—that is, that the term "holds invalid" can accommodate an "implied" holding contradictory to its express holding or a speculative collateral estoppel effect thereof—were even remotely contemplated by any of the parties at the time they drafted and entered into the 1984 Settlement Agreement. If Bard had a different understanding of the meaning of the word "holds" in Paragraph 6, it did not communicate that meaning to Gore at the time the parties entered into the 1984 Settlement Agreement.

d) *Conclusion*

The Court finds that Bard's reading of the meaning of "holds invalid" is not supported by any evidence. Rather, Bard's argument flies in the face of the commonly understood meaning of the words "a final judgment of a United States court . . . which holds." Holdings of cases are explicit and they address the issues that have been presented to the court. Holdings are not implied from the similarity of the claims decided to other claims not asserted, especially in the area of patent litigation. Holdings also are not derived by analogy from the issue-preclusive effect that a judgment may have. Holdings are the court's rulings on the issues before it. For a court to rule on issues and claims not before it would be a denial of due process in the plainest sense. Because claim 36 was not before the Arizona court, it did not form part of that court's holding.

Bard and Gore are sophisticated commercial entities that manufacture and market sophisticated medical devices. They are confronted with patent issues frequently. They also were represented by highly competent legal counsel, with specialized expertise in patent matters, in the Initial Action and said counsel negotiated and executed the 1984 Settlement Agreement. As noted in this court's 1997 opinion, the Court will not rewrite the voluntarily negotiated and mutually adopted 1984 Settlement Agreement just because one of the parties is unhappy with it now. Because of the absence of any evidence supporting Bard's current reading, the Court finds that these sophisticated parties and their competent legal counsel meant what they said when they set forth the very specific requirement that a federal court must hold invalid "each and every claim asserted against Bard," and then went on to list by number all five claims, "claims 9, 12, 16, 35 and 36," before the Goldfarb option may be withdrawn. This precise language plainly requires that all five claims, not four out of five, be invalidated by the final judgment of a federal court before Paragraph 6 could be operative.

Accordingly, Bard was not justified in withdrawing from Gore the Goldfarb option. The Court finds that the 1984 Settlement Agreement requires that each and every one of the five claims asserted against Bard in the Initial Action be held invalid by a federal court before Bard would be justified in withdrawing the Goldfarb option. Because the Arizona Judgment invalidated only four of those five claims, it does not satisfy the conditions of Paragraph 6.[2] Summary judgment will be entered in favor of Gore dismissing Bard's complaint in this respect.

---

[2] Because the Court finds that the plain meaning of the terms "holds" and "each and every claim" are dispositive against Bard's case, it need not reach the issue of whether or not the vacated Arizona Judgment was a "final judgment from which no appeal has been or can be taken" within the meaning of Paragraph 6.

2) *Breach of the Covenant of Good Faith & Fair Dealing*

Bard also has asserted a claim that Gore breached the duty of good faith and fair dealing by asserting in the Arizona action only four of the five claims asserted in the Initial Action. Bard claims Gore did so in order to assure that the condition subsequent of Paragraph 6 would not be met. Bard argues that by hindering the occurrence of the condition subsequent, Gore exercised bad faith and that, as a result, this Court should excuse the condition subsequent and find that Bard was justified in withdrawing the Goldfarb option.

New Jersey contract law recognizes an implied covenant of good faith and fair dealing in the performance of every contract. *See Sons of Thunder, Inc. v. Borden, Inc*, 148 N.J. 396, 420-21 (1997): *Bak-A-Lum Corp. of Am. v. Alcoa Building Prods., Inc.*, 69 N.J. 123 (1976). However, the covenant does not override the plain terms of a contract, and a party is entitled to adhere to the terms of the contract even if the result may be unfavorable to one of the parties. *See, e.g., Darche v. Beatrice Foods Co.*, 538 F. Supp. 429, 435 (D.N.J. 1981) (declining to invoke the covenant of good faith and fair dealing where defendant exercised a contractual right to terminate): *Karl's Sales & Service, Inc. v. Gimbel Bros., Inc.*, 249 N.J. Super. 487, 495 (App. Div. 1991) (finding that when a party to a contract has the contractual right to terminate for any reason, the party's motive in exercising that right is immaterial). To maintain such a claim, Bard must demonstrate more than the fact that Gore abided by and endeavored to preserve the terms of the settlement agreement. Bard must point to some evidence that demonstrates bad faith on Gore's part which somehow deprived Bard of its rights under the contract.

Bard does not argue that the product at issue in the Arizona action infringed Claim 36 of the '390 Patent and that Gore thus should have asserted claim 36 in the Arizona action. In fact, in its opposition brief, Bard acknowledged that it "does

not contend that Gore was legally obligated to assert all possible claims against all infringers." (Pl.'s Br. at 37) (emphasis in original). Rather, Bard argues that "the substance of Gore's allegations in the Arizona action necessarily implied an allegation that claim 36 was infringed by IMPRA." (*Id.* at 38). But, as discussed above, each patent claim stands on its own. An infringement of two claims does not necessarily mean that a third claim comprised of components of the other two has also been infringed. The fact that Gore believed that IMPRA infringed claims 9 and 35 does not mean that Gore also should have sued on Claim 36, and Bard has pointed to no evidence in the record demonstrating infringement of Claim 36 was "necessarily implied" in any way and that Gore thus acted in an underhanded manner when it failed to assert infringement of Claim 36. Bard thus has not pointed to evidence that the failure to assert claim 36 was an act demonstrating bad faith designed to hinder the occurrence of the condition subsequent in Paragraph 6.

Bard also claims that Gore showed bad faith by procuring a vacatur of the Arizona Judgment from the Federal Circuit when the case was settled while on appeal. This claim fails for two reasons. First, as Gore pointed out, it was the routine practice of the Federal Circuit to vacate lower court judgments in such cases when they become moot during the appeal, *see e.g., U.S. Phillips Corp. v. Windmere Corp.*, 971 F.2d 728, 731 (Fed. Cir.1992) ("This court has held that vacatur of the judgment at trial is appropriate when settlement moots the action on appeal."). This Court does not see how asking the Federal Circuit to follow its routine practice could possibly amount to bad faith. Second and more importantly, as discussed above the Arizona Judgment did not meet the "each and every claim" requirement of Paragraph 6 and thus did not justify Bard's withdrawal of the Goldfarb patent. Therefore, whether Gore secured a vacatur of the Arizona

Judgment is immaterial because that judgment did not meet the requirements of the condition subsequent justifying withdrawal of the Goldfarb patent.

The Court finds that Bard has not pointed to evidence that could sustain its claim that Gore breached the covenant of good faith and fair dealing. Therefore, the Court will grant summary judgment to Gore on this claim.

/s/ John C. Lifland
JOHN C. LIFLAND
United States District Judge

Dated: August 14, 2000

Supreme Court U.S.
FILED
APR 9 2002
OFFICE OF THE CLERK

(2)

No. 01-1319

IN THE

Supreme Court of the United States

C.R. BARD, INC.,

Petitioner,

v.

W.L. GORE & ASSOCIATES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

JOHN S. CAMPBELL
W.L. GORE & ASSOCIATES, INC.
551 Paper Mill Road
Newark, Delaware 19714
(302) 292-4128

DAVID H. PFEFFER*
JANET DORE
KIMBER L. BLACKBURN
MORGAN & FINNEGAN, L.L.P.
345 Park Avenue
New York, New York 10154
(212) 758-4800

Attorneys for Respondent

* *Counsel of Record*

2 ORP

QUESTION PRESENTED

Does this case present an issue for review by this Court where there is no federal or constitutional question at issue and no conflict between the circuits? More particularly, this case was commenced in federal court solely on diversity jurisdiction. It was decided solely on the application of New Jersey contract law to the specific facts of the case, namely that, in context, a particular phrase in a private agreement should be interpreted to mean precisely what it says, and nothing more or less.

CORPORATE DISCLOSURE STATEMENT

In accordance with Supreme Court Rule 29.6, respondent W.L. Gore & Associates, Inc. states that it is a privately held corporation, that it has no parent company and that there is no publicly held company owning ten percent (10%) or more of its stock.

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STATEMENT OF THE CASE

Introduction

This case involves the interpretation, under New Jersey state contract law, of a 1984 Agreement between Petitioner, C.R. Bard, Inc. ("Bard") and Respondent, W.L. Gore & Associates, Inc. ("Gore") settling an earlier patent infringement action between them.[1] At issue is the construction under New Jersey contract law of the phrase "holds invalid each and every one of the claims asserted against Bard. . . ." and whether under that phrase as properly construed, Bard could properly withdraw an option for a license granted to Gore under that Agreement. Gore's position and the rulings of both the district court and the court of appeals below were that under the proper construction of the Agreement language, the condition that would have permitted Bard to withdraw Gore's option for a license did not occur.[2]

The 1984 Litigation Between Gore and Bard

Among other things, Gore is a manufacturer of GORE-TEX brand vascular grafts which are used as replacement or bypass

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1. *W.L. Gore & Assoc., Inc. and Gore Enterprise Holdings, Inc. v. C.R. Bard, Inc.*, Civil Action No. 84-729 (FBL) (D.N.J.).

2. The settlement document which is now being challenged by Bard in the instant case was also attacked by Bard once before, in 1991, through an unsuccessful motion to modify the judgment. The denial of that motion was appealed by Bard to the United States Court of Appeals for the Federal Circuit, which affirmed the district court's denial of Bard's motion, noting "[t]hat a contract voluntarily made turns out to be less or more favorable to one of the parties is insufficient ground for judicial intervention." *See W.L. Gore & Assoc., Inc. v. C.R. Bard, Inc.*, 977 F.2d 558, 561 (Fed. Cir. 1992).

arteries for patients with arterial blockages. GORE-TEX vascular grafts are made of expanded polytetrafluoroethylene ("e-PTFE"), a material familiarly sold or used under the brand name TEFLON. At various times, Bard has also manufactured competing e-PTFE vascular grafts.

In 1984, Gore brought suit against Bard in the district court for the district of New Jersey accusing Bard's competing e-PTFE vascular grafts of infringing claims 9, 12, 16, 35 and 36 of Gore's U.S. Patent No. 4,187,390 ("the '390 Patent"). Bard capitulated before trial and entered into a Settlement Agreement with Gore. Under that Agreement, Bard was required to (1) cease its unauthorized manufacture of vascular grafts, (2) destroy its existing graft inventory, (3) pay $600,000 to Gore, (4) grant a sub-license to Gore under any patent that might issue on a "Goldfarb" patent application and (5) permit entry of a final judgment and injunction on consent adjudging that each of the patent claims 9, 12, 16, 35 and 36 were valid.

Paragraph 6 of the Settlement Agreement, included at Bard's request and after review by Bard's counsel, permitted Bard to withdraw or terminate Gore's option to obtain such a "Goldfarb" sub-license if:

> there is a Final Judgment of a United States court from which no appeal has been or can be taken and which holds invalid each and every one of the claims asserted against Bard, i.e., claims 9, 12, 16, 35 and 36 of United States Patent No. 4,187,390 . . .

Bard sought to invoke Paragraph 6 of the Agreement. The subsequent judgment which Petitioner Bard claimed

triggered Paragraph 6 was a 1990 judgment of an Arizona federal district court. The case below involved the interpretation, under New Jersey contract law of the Paragraph 6 term "holds invalid each and every one of . . . claims 9, 12, 16, 35 and 36."

The Litigation Between Gore And IMPRA

After settlement of the 1984 litigation with Bard, Gore sued International Medical Prosthetics Research Associates, Inc. ("IMPRA"), another manufacturer of e-PTFE grafts, in the District of Arizona, for infringement of claims 9, 12, 16 and 35 (but not 36) of the '390 patent. After trial, the Arizona district court issued an Amended Judgment in July 1990, holding invalid specifically enumerated patent claims, namely 9, 12, 16 and 35, the only claims that were litigated. Patent claim 36, one of the five patent claims referred to in Paragraph 6 of the Bard-Gore Settlement Agreement, was not in issue in the Arizona action against IMPRA and was not mentioned in the Arizona Amended Judgment.

Subsequent to the issuance of the Arizona district court judgment and while an appeal to the Federal Circuit was pending, Gore and IMPRA reached a settlement of the Arizona action. Pursuant to its then established policy, the Court of Appeals for the Federal Circuit granted the joint motion of Gore and IMPRA and vacated the Arizona Amended Judgment. Following receipt of the Federal Circuit's Mandate, the Arizona district court issued an order (1) acknowledging that the Federal Circuit had vacated the district court's Amended Judgment, and (2) substituting a new judgment dismissing the action. The substitute judgment, unlike the earlier Amended Judgment, did not adjudicate or even mention the validity of any patent claims.

The Action Below

Notwithstanding (a) the vacatur of the Arizona district court judgment and (b) the fact that even before vacatur, the Arizona Amended Judgment only referred to four, not five patent claims, Bard sought declaratory relief that it could revoke the "Goldfarb" sublicense. In its complaint, Bard asked the court to find that even though patent claim 36 was never expressly adjudicated, the vacated Arizona district court judgment was a "Final Judgment . . . which holds invalid each and every one of the claims asserted against Bard, i.e. claims 9, 12, 16, 35 and 36 . . ." as required by Paragraph 6 of the 1984 Settlement Agreement.

In its decision below, the district court granted summary judgment and dismissed Bard's complaint. Applying New Jersey state contract law, the district court held that as intended by the parties, the Agreement required a judgment expressly holding invalid "each and every one" of the five specified patent claims before Bard could properly withdraw the "Goldfarb" option (App. 14a-19a, 23a).[3] The district court rejected Bard's attempt to rely on possible implied invalidation of the fifth claim or its effective invalidation under principles of collateral estoppel. The district court made clear that Bard would be held to the bargain it made in 1984. The district court said that "[b]ecause the Arizona Judgment invalidated only four of those five claims," it did not satisfy the conditions of Paragraph 6 (App. 23a).

The Court of Appeals for the Third Circuit affirmed the district court's decision based on "the actual language of the parties' settlement agreement . . ." (App. 1a), which it agreed

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3. References to Appendix pages are to the appendices attached to Bard's Petition for Certiorari.

was "clear and unambiguous" (App. 2a). The court declined to "deviate from the express words of the contract" concluding that "four out of five of the claims being held invalid is not enough to satisfy the condition subsequent." (App. 2a-3a).

Based upon New Jersey contract law considerations, the Third Circuit rejected Bard's argument that "holds invalid" has a broader meaning than the explicit language of the Arizona court's Amended Judgment, or that claim 36 was held invalid by implication:

> We will not now decide that the Arizona court actually meant to "hold invalid" a claim that was never even placed into issue before it. We also reject the argument that claim 36 was "held invalid" because it is necessarily invalid as a derivative of the other claims. . . . That analysis would involve an exercise not anticipated by the plain language of the parties' agreement. (App. 3a).

REASONS FOR DENYING THE WRIT

Petitioner's basis for seeking the writ is factually flawed and legally erroneous. There is no "conflict" between the District of Columbia Circuit's *Teva* decision, *Teva Pharms. USA Inc. v. United States Food & Drug Admin.*, 182 F.3d 1003 (D.C. Cir. 1999), and the Third Circuit's decision in this case. In reality, in the guise of seeking resolution of a purported conflict between the circuits, Petitioner is asking this Court to review and reverse the application of New Jersey state contract law in an action where the jurisdiction of the federal courts below was based solely on diversity jurisdiction.

I. THERE IS NO CONFLICT BETWEEN THE CIRCUITS

The *Teva* case involved interpretation, under federal law, of the intent underlying a federal statute's use of the term "court decision." On the other hand, the present case involved the construction, under New Jersey state contract law, of the parties' mutual intent in using certain language in a private agreement negotiated almost two decades ago.

A. The *Teva* Case Involved A Statutory Interpretation

The *Teva* case involved interpretation of the Abbreviated New Drug Application ("ANDA") statute. The question before the District of Columbia Circuit was the scope of the ANDA statute's requirement for a "court decision." The ANDA statute required Teva, as the new drug supplier, to establish to the Food & Drug Administration ("FDA") that there had been a "court decision" holding the patent on the drug either invalid, non-infringed or unenforceable.

Teva had earlier attempted to secure a judicial determination of patent non-infringement by filing a declaratory judgment action in California against Syntex, the patentee. That effort was thwarted when Syntex moved to dismiss the California action for lack of a justiciable controversy. The Syntex motion was supported by an express representation that Teva's formulation did not infringe the patent and a commitment that Syntex would not sue Teva for patent infringement. As a direct result of the Syntex promise not to sue, the California court found that Teva "lacks a reasonable apprehension of suit . . . for infringement of the . . . patent" and dismissed the action for lack of the required justiciable controversy. 182 F.3d at 1006.

When the FDA declined to consider the California dismissal as a "court decision" under the ANDA statute, Teva sought relief in the District of Columbia. That gave rise to the *Teva* decision the Petitioner now relies upon. In *Teva*, the District of Columbia Circuit overturned the FDA's ruling because the FDA was "arbitrary and capricious" when it refused to recognize the dismissal of the California case as satisfying the "court decision" requirement of the ANDA statute. The District of Columbia Circuit noted the statute's requirement that there be some advance resolution of any patent disputes in order to trigger the ANDA provisions. The judicially accepted promise not to sue by Syntex underlying the California dismissal constituted that resolution and thus satisfied that requirement. As a result, the District of Columbia Circuit noted that the FDA's ruling refusing to accept that decision as complying with the statute, if allowed to stand, would have thwarted the underlying purpose of the statute.

B. The Present Case Involves A Determination of The Parties' Intent Under New Jersey State Law

In the present case, where jurisdiction was based solely on diversity of citizenship, no statutory interpretation is involved. Instead, the courts below construed a particular sentence in a private contract in accordance with New Jersey contract law. The question posed under New Jersey law was what the two contracting parties intended when they agreed, eighteen years ago, that Gore's right to a patent license could be withdrawn "[i]n the event that there is a Final Judgment of a United States court from which no appeal has been or can be taken and which holds invalid each and every one of . . . claims 9, 12, 16, 35 and 36 of United States Patent No. 4,187,390 . . ."

The district court and the court of appeals both concluded that the words of the Gore-Bard settlement agreement were carefully written. Both courts below held that under the rules of contract construction applicable under New Jersey contract law, the language chosen by the parties meant that to invoke the condition subsequent, the judgment had to expressly hold invalid "each and every one" of five enumerated patent claims, and this condition could not be satisfied by a judgment holding that four of the five claims were invalid. *See, e.g.*, App. 2a-3a; App. 22a-23a. Hence, the courts below both found that the Arizona court's Amended Judgment relied on by Petitioner, even before it was vacated on appeal, was not sufficient under New Jersey state contract law to trigger the condition subsequent in the contract.

II. THE PETITIONER CONFUSES STATUTORY INTERPRETATION OF "COURT DECISION" WITH POSSIBLE COLLATERAL ESTOPPEL EFFECT OF A JUDGMENT IN FUTURE LITIGATION

To construct an alleged conflict between the District of Columbia Circuit and the Third Circuit, the Petitioner argues that under the District of Columbia Circuit's construction of the ANDA statute in *Teva*, the "holding" of a court constitutes not only what it says expressly but also the holding's effect by way of collateral estoppel. In contrast, the Third Circuit's construction under New Jersey law of the words "holds invalid" in a private contract relied only on what the judgment expressly held, and not on any subsequent collateral estoppel effect. Petitioner asks this Court now to establish a uniform meaning, in the abstract, of the term "holding," as a matter of federal practice, whether that term is used in a federal statute as in *Teva* or by private parties in a contract to be

interpreted under state law. That uniform federal-state meaning of the abstract term "holding," the Petitioner urges, should include not only what the judgment holds expressly, but also whatever collateral effect that judgment might have in subsequent proceedings.

But Petitioner is mixing apples and oranges in its treatment of the two decisions. In *Teva*, the court looked to the absurdity ("arbitrary and capricious") of the FDA insistence on a further "court decision," both because such insistence was inconsistent with a prior FDA determination and because no other court proceeding was possible, given the patentee's concession of no infringement.

In contrast, the present case does not involve questions of abuse of discretion by the FDA or whether a subsequent lawsuit was technically possible. Instead, the issue is an interpretation under New Jersey law, of what the parties meant by a particular sentence in the context of an entire agreement.

The *unpublished* Third Circuit opinion in this case made no determination in the abstract as to the meaning of the term "holding" from a federal procedural standpoint. And pursuant to its view of New Jersey contract law, the Third Circuit expressly refused to determine whether, outside the context of the agreement being construed, a "holding" should or should not be considered as including any collateral effect:

> We also reject the argument that claim 36 was "held invalid" because it is necessarily invalid as a derivative of the other claims. . . . *That analysis would involve an exercise not anticipated by the plain language of the parties' agreement.* (App. 3a; emphasis supplied).

To be sure, the Third Circuit also refused to rule that "holds invalid," in the context of a carefully drafted settlement, has a broader meaning than what is explicitly stated in the Arizona court's Amended Judgment (App. 3a). But that refusal was not based on any collateral estoppel considerations, but was instead based on both (a) the Arizona district court's express assertion, in its Amended Judgment, that it was only holding four (not five) claims invalid, and (b) the reasoning by the district court below that the patent statute states that "[E]ach claim of a patent . . . shall be presumed valid independently of the validity of other claims," citing both to the statute itself, 35 U.S.C. § 282, and this Court's decision in *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 301, 319 (1909). *See* the district court opinion at App. 16a and 21a and the Third Circuit opinion at App. 3a.

III. THE ISSUE ON WHICH PETITIONER SEEKS THE WRIT IS MOOT, IN ANY EVENT

A further reason for denying the requested writ is that its grant would make no difference to the ultimate outcome of the underlying litigation. In footnote 3 of the Petition, the Petitioner correctly concedes that the judgment of the Arizona district court upon which it relies as the requisite "final judgment" was vacated. However, Petitioner failed to note that the vacatur was ordered by the Court of Appeals for the Federal Circuit, the court in which the appeal was then pending. A copy of the vacatur order of that court is now annexed in Appendix 1 hereto.

It is well settled that a lower court decision that has been vacated by an appellate court has no residual effect, for *res judicata*, collateral estoppel or any other purpose. *Cardinal Chem. Co. v. Morton Int'l., Inc.*, 508 U.S. 83, 93 n.15 (1993); *United States v. Munsingwear*, 340 U.S. 36, 39-40 (1950).

We point this out only because the Petitioner relies primarily on the alleged need to invoke collateral estoppel in determining what constitutes a "holding" of a district court judgment. *See* Petition at pp. 13-14. But where, as here, that district court judgment has been vacated during appeal, there is no collateral estoppel effect given to anything in that judgment. *Munsingwear*, 340 U.S. at 39-40. Consequently, the issue is entirely moot as to these parties and this case.

CONCLUSION

The Petition for a Writ of Certiorari should be denied because there is no conflict between the circuits. We have instead a decision below by the Third Circuit under state law that is entirely fact based, contrasted with an analysis of a specific federal statute by the District of Columbia Circuit where an administrative interpretation was deemed "arbitrary and capricious." Moreover, as an additional basis for denying the writ, the issue raised by Petitioner is entirely moot as a result of the vacatur of the Arizona district court's Amended Judgment upon which Petitioner relies.

Respectfully submitted,

JOHN S. CAMPBELL
W.L. GORE & ASSOCIATES, INC.
551 Paper Mill Road
Newark, Delaware 19714
(302) 292-4128

DAVID H. PFEFFER*
JANET DORE
KIMBER L. BLACKBURN
MORGAN & FINNEGAN, L.L.P.
345 Park Avenue
New York, New York 10154
(212) 758-4800

Attorneys for Respondent

* *Counsel of Record*

Dated: April 9, 2002

APPENDIX — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED AUGUST 4, 1993 AND FILED AUGUST 11, 1993

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

90-1489

CIV 84-559 PHX CLH

W.L. GORE & ASSOCIATES, INC.
and GORE ENTERPRISE HOLDINGS, INC.,

Plaintiffs/Counterdefendants-Appellants,

v.

INTERNATIONAL MEDICAL PROSTHETICS RESEARCH ASSOCIATES, INC., also known as IMPRA, INC.,

Defendant/Counterclaimant-Appellee.

APPEAL FROM A DECISION OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA
HON. CHARLES L. HARDY, DISTRICT JUDGE

Based on the joint motion of the parties hereto, it appearing that the dispute has been settled in its entirety, it is hereby ordered:

Appendix

a) that the judgment appealed from of the United States District Court for the District of Arizona be and hereby is vacated;

b) that the case be and hereby is remanded to the United States District Court for the District of Arizona with instructions that it be dismissed; and

c) that this appeal be and hereby is dismissed.

Entered this __ day of July, 1993.

FOR THE COURT,

s/ Francis X. Gindhart
FRANCIS X. GINDHART
Clark

8/4/93
Date

(3)

No. 01-1319

IN THE

Supreme Court of the United States

C.R. BARD, INC.,
Petitioner,

v.

W. L. GORE & ASSOCIATES, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITIONER'S REPLY BRIEF

LAWRENCE H. MARTIN
FOLEY, HOAG & ELIOT LLP
1747 Pennsylvania Avenue, NW
Washington, DC 20006
(202) 223-1200

PETER B. ELLIS *
FOLEY, HOAG & ELIOT LLP
One Post Office Square
Boston, MA 02109
(617) 832-1000

Counsel for Petitioner

* Counsel of Record

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

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IN THE

Supreme Court of the United States

No. 01-1319

C.R. BARD, INC.,

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Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITIONERS' REPLY BRIEF

Gore is correct in asserting that this case arises from a contract dispute and is premised on diversity of citizenship jurisdiction. Gore is flatly wrong, however, in suggesting that Bard's Petition does not present a fundamental issue of federal law—*i.e.*, the scope of a federal court's "holding." Gore is equally wrong in asserting that there is no inconsistency between the highly cramped and mechanistic meaning given to that term by the lower courts here and the far more rational and lucid approach followed by the District of Columbia Circuit in *Teva Pharmaceuticals. Teva Pharms., USA, Inc. v. United States Food & Drug Admin.*, 182 F.3d 1003 (D.C. Cir. 1999).

When the two cases are compared, it is clear that the Third Circuit and the District of Columbia Circuit have adopted, *as a matter of law,* very different and intellectually irrecon-

cilable interpretations of the terms "held" and "holding." That the cases arose from dissimilar factual backgrounds does not diminish the significance of that fundamental inconsistency. The very notion of "holding" is a bedrock concept within our common law system. The intervention of this Court is necessary both to elucidate that concept and to correct a pernicious narrowing of its scope.

I. THE THIRD CIRCUIT AND THE D.C. CIRCUIT HAVE ADOPTED, AS A MATTER OF LAW, RADICALLY DIFFERENT MEANINGS OF THE TERM "HOLDING."

A. The Third Circuit Ruled As A Matter Of Law That The Holdings Of A Federal Court Include Only Those Conclusions Expressly Stated In A Rule 58 Judgment Document.

Gore's Opposition repeatedly stresses the fact that this case grows out of a contract dispute. This argument, however, overlooks the fact that the pivotal issue in the case was a matter of federal law: the scope and content of a federal court's prior "holding" on an issue of federal law (the invalidity of a patent). The Third Circuit, echoing the district court, ruled that the meaning of the phrase "holds invalid" is "clear and unambiguous," (App. 2a), and consequently that Gore was "entitled to judgment as a matter of law." (App. 4a.)

The Third Circuit's decision directly rejected the legal proposition advanced by Bard: that the holdings of a court decision can and should be determined by reference to the collateral estoppel effects of that decision. In so doing, the Third Circuit ignored the District of Columbia's specific endorsement of that approach in *Teva Pharmaceuticals,* as well as scholarly authority for the same proposition.

The Third Circuit's legal definition of "holding" is even more remarkable because it also rejected the view that a case

can ever have an *implicit* holding. The court's opinion recognizes as holdings only those matters "explicitly stated" in a court's "judgment." (App. 3a.) Indeed, not only must a conclusion be "explicitly stated" to count as a "holding," but it must also be stated in the ultimate Rule 58 judgment document to be so counted. (*Id.*) Under the approach followed by the district court and the Third Circuit, even findings and rulings explicitly stated in post-trial memoranda and opinions cannot be accorded the status of "holding" unless expressly repeated in the separate (usually one-page) judgment document required by Rule 58.

Bard submits that this approach is deeply flawed and inherently confused. Nor is such confusion a trivial matter. The principle of *stare decisis* and the doctrines of claim preclusion and issue preclusion turn in no small measure on how courts understand the holdings of prior cases. When this core concept is so fundamentally misunderstood, certain critical mechanisms of our legal system are threatened.

B. In Contrast, The D.C. Circuit Has Ruled As A Matter Of Law That "Holdings" Can Include Issues Encompassed By The Collateral Estoppel Effects Of A Court Decision.

The Third Circuit's confusion about what may and may not be considered a "holding" is highlighted by the D.C. Circuit's directly contrary ruling in *Teva Pharmaceuticals*. That court ruled—again as a matter of law—that the term "holding" is broad enough to include not only matters implicitly rather than explicitly stated, but also to include issues encompassed by the collateral estoppel effects of a court's disposition. *Id.* at 1008. In stark contrast to the Third Circuit's decision here, the D.C. Circuit observed that the concept of "holding" is not a rigid one, and proceeded to construe that term in the context of real world judicial decision making. *See id.* at 1008-09.

The fact that the *Teva* case involved a question of federal statutory interpretation does nothing to minimize the conceptual gulf that separates the Third Circuit from the D.C. Circuit on the question of what constitutes a federal court's "holding." The Third Circuit's analysis of the concept was not tied in any way to the particulars of New Jersey contract law; rather, it addressed the scope of the Arizona district court's prior holding in the Arizona Action as a matter of pure legal semantics, informed by the Federal Rules of Civil Procedure. Similarly, the D.C. Circuit's statements that holdings may be determined by reference to the collateral estoppel effects of a prior court's decision did not turn on the particular statutory context in which the term "holding" appeared. Rather, that court's analysis in the first instance proceeded, like the Third Circuit's, as an abstract matter of law. *See id.* at 1008-09.

In sum, Gore's assertions notwithstanding, it is clear that two sister Circuits have conceptualized the bedrock concept of "holding" in diametrically opposed fashions. There can be no doubt that if the Third Circuit had understood that term in the same way as the D.C. Circuit does, it would have decided this case very differently. The intervention of this Court is necessary to eliminate the confusion that currently clouds judicial thinking on this issue.

II. GORE'S MOOTNESS ARGUMENT IS BOTH WRONG AND BESIDE THE POINT.

In a final effort to minimize the fact that there is a very real inconsistency in the lower courts about the fundamental concept of "holding," Gore argues that this Court should refuse to review this case because granting the writ "would make no difference to the ultimate outcome of the underlying litigation." Opposition at 10. Gore contends that because Gore and IMPRA, the parties to the Arizona Action, eventually stipulated in 1993 to a vacatur of the 1990 Arizona

Final Judgment, the instant dispute is somehow "moot."[1] This argument is flawed in several respects.

First, neither the district court nor the Third Circuit reached Gore's "mootness" argument. Although that argument was briefed by both parties, both lower court decisions were premised entirely on their reductionist approach to the concept of "holding." Bard's Petition for a Writ of Certiorari asks this Court to review what *was* decided below. In effect, Gore is asking this Court to make a decision about an issue that was not decided by the lower courts, and to do so without any opportunity for full briefing.

Moreover, if this Court were even to entertain Gore's argument, it should recognize that the issue is not whether the 1990 Arizona Final Judgment continues to have collateral estoppel effect today. The issue, rather, is whether that judgment had collateral estoppel effect with respect to claim 36 at the time it was rendered, thus satisfying the condition of Paragraph 6.

The Paragraph 6 condition *was* satisfied at the time the Arizona case was finally decided, subject (as therein stated) to Gore's right to pursue a successful appeal from the final judgment. The contract did *not* provide that Gore could escape an adverse final judgment by purchasing a vacatur of that judgment. Moreover, no court could reasonably infer that the contracting parties could have intended that vacatur was a permissible escape route for Gore.[2]

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[1] After Gore appealed the adverse Arizona Final Judgment to the Federal Circuit, and after that appeal was fully briefed and orally argued, Gore and IMPRA reached a settlement in which Gore paid IMPRA a substantial amount of money to dismiss its counterclaims and procured IMPRA's agreement to a stipulated vacatur of the judgment.

[2] It was undisputed below that neither party gave any thought to the possibility of vacatur at the time of contracting, and that privately-procured vacaturs were not yet a common or well-known practice at that time.

A majority of federal appellate courts, including this Court, have been critical of privately-stipulated vacaturs. *See, e.g., U.S. Bancorp Mortgage Co. v. Bonner Mall P'ship.*, 513 U.S. 18 (1994); *Ringsby Truck Lines, Inc. v. Western Conf. of Teamsters*, 686 F.2d 720 (9th Cir. 1982); *Clarendon Ltd. v. Nu-West Industs., Inc.*, 936 F.2d 127, 129 (3d Cir. 1991). Indeed, no court has ever held that such a vacatur, whatever its effect as between the parties or with respect to future lawsuits, had any effect on the existing contractual rights of a third party such as Bard.

In sum, Gore's "mootness" argument is unfounded, and should not even be addressed on the limited factual and legal record currently before the Court.

CONCLUSION

This Court should act to dispel the confusion that manifestly exists within the federal court system concerning the scope of a federal court's "holding." For the reasons set forth in its original Petition and above, Bard requests that its Petition for a Writ of Certiorari be granted.

Respectfully submitted,

LAWRENCE H. MARTIN
FOLEY, HOAG & ELIOT LLP
1747 Pennsylvania Avenue, NW
Washington, DC 20006
(202) 223-1200

PETER B. ELLIS *
FOLEY, HOAG & ELIOT LLP
One Post Office Square
Boston, MA 02109
(617) 832-1000

Counsel for Petitioner

* Counsel of Record